LOS ANGELES COUNTY

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CC 95-72

July 10, 1997

Mr. William F. Caton
Secretary
Federal Communications Commission
1919 M Street, NW
Washington, DC 20554

RE: Access Charge Reform, CC Docket No. 96-262

Dear Mr. Caton:

Enclosed for filing please find the original and four copies of the Petition for Reconsideration of the County of Los Angeles in FCC Docket No. CC 96-262.

Thank you for your attention to this matter.

Sincerely,

Garrett G. Mayer

Garrett G. Mayer
Chief, Regulatory Affairs
Internal Services Department

cc: The Honorable Reed E. Hundt, Chairman
The Honorable Susan Ness, Commissioner
The Honorable Rachelle B. Chong, Commissioner
The Honorable James H. Quello, Commissioner
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Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Access Charge Reform	)	CC Docket No. 96-262
	)	
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
	)	
	)	
Transport Rate Structure and Pricing	)	CC Docket No. 91-213
	)	
	)	
End User Common Line Charges	)	CC Docket No. 95-72

PETITION FOR RECONSIDERATION
OF THE COUNTY OF LOS ANGELES, CALIFORNIA

COUNTY OF LOS ANGELES, CALIFORNIA

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PETITION FOR RECONSIDERATION
OF THE COUNTY OF LOS ANGELES, CALIFORNIA

The County of Los Angeles (County) hereby requests that the Commission reconsider certain aspects of its Access Reform Decision (FR&O in CC Docket 96-262). The plan as presently designed would impose dramatic and unwarranted rate shock upon the County and, the County believes, upon numerous other state and local government bodies nationwide, primarily resulting from the imposition of the non-economic, non-cost-based multiline Primary Interexchange Carrier Charge (PICC) of $2.75 per exchange access line per month. The PICC would be imposed upon the interexchange carrier (IXC) to whom each customer access line is presubscribed, or directly upon the end user in the event no election of a Primary Interexchange Carrier (PIC) is made by the customer. If imposed upon the IXC, the IXC would be permitted to recover such payments in rates charged to customers for long distance and other IXC services.

If the IXCs to which the County's 86,000 access lines are presubscribed were to attempt to flow-through the PICC costs directly to the County, together with the various other new and increased charges that would be imposed by the Commission's Order,[1] the potential total cost increases associated with service provided to the County could amount to approximately $4.6-million annually ($1.7-million in SLCs, $2.8-million in PICCs, -$0.07-million in switched access reductions, $0.2-million in USF surcharge). This amounts to an increase of 11% overall in the County's $42-million annual telecommunications billing, and an increase of 270% in the County's $1-million in interstate billing levels!

Implementation of the Multiline PICC will impose an unexpected and unwarranted rate shock to the County

In describing its analysis of the impact that the imposition of flat-rated charges, including the PICC, would have upon multiline subscribers, the Commission indicates that, while it considered the issue of rate shock, it concluded that this is not a serious concern. The Commission apparently expects that, at least for "the majority of multi-line customers," the savings associated with the quantity of interstate minutes that they purchase will be large enough to more than offset the new PICC fees and other flat-rate increases.

> "We believe that the approach we adopt should prevent widespread discontinuance of lines by multi-line customers ... Moreover, we expect the rate structure modifications we adopt in this order to benefit the majority of multi-line customers through reductions

1. These consist of the increase in the business multiline Subscriber Line Charge (SLC) and the Universal Service Fund surcharge.

in per-minute long distance rates."[2]

The Commission's analysis is flawed because it focuses upon *average* conditions rather than upon specific situations that confront not just some, but numerous *public sector* telecommunications users, particularly those conditions typical of municipal, county and state government bodies whose *interstate* use is typically a minor, even a *de minimis* fraction of their total telecommunications expenditures. In the case of the County and, we believe, most other municipal and county government bodies, the ratio of interstate minutes to access lines is vastly lower than for commercial telecommunications users. For example, the County's 4-million annual minutes of originated interstate long distance usage, when spread across the 86,000 County access lines, represents less than four minutes per line per month, or about 12 seconds per line per average business day. Regardless of whether the long distance carriers choose to flow the PICC through to the County as a discrete per-access-line rate element or collect it in per-minute usage charges, imposition of the multiline PICC as presently required will have a severe and negative impact upon the County's ability to obtain long distance service because of the considerable costs that will be imposed upon its chosen carrier through the PICC.[3]

2. Access Charge Reform, First Report and Order, CC Docket 96-262, para. 80.

3. The selected IXC will be subject to more than $2.8-million in annual PICC payments for the County's 86,000 access lines. If recovered on a per-minute basis, the PICC charge flow-through alone would increase the County's interstate use charge by roughly 68 cents per minute, which would grossly overwhelm the 0.5 to 1.0 cent per minute reduction that the same IXC will experience in its traffic-sensitive switched access charges.

Consider the following statistics.[4] The County of Los Angeles presently has in service a total of more than 86,000 multiline business access lines. (Some 67,000 of these lines are Centrex, 6,000 are PBX trunks, and 13,000 are regular business access lines). Not surprisingly, the vast majority of the County's usage is completed within the Los Angeles area, generally within the County itself: Of the total of close to 350-million annual minutes originating from within the County's telecommunications system, approximately 340-million minutes are local or intraLATA toll, and only 7.6-million are interLATA. Of those 7.6-million interLATA minutes, only about 4-million per year (333,333 per month) are interstate minutes for which the County's long distance provider can expect to see an offsetting reduction in the range of one to two cents per minute or less in carrier access charges.

Followed through, the imposition of a PICC of $2.75 per month applicable to each of the 86,000-plus access lines will result in an annual rate increase of $2.8-million, while the "offsetting" reductions of switched access charges (assuming the totality of the reduction occurring by January 1, 1998 is the full $1.7-cents estimated by the Commission)[5] will equate to approximately $68,000 per year for a total increase in the cost of providing service to the County of $2.7-million. To put the magnitude of this increase in perspective, the County's present annual billing from its long distance carrier is only about $1-million per year. Given the four million interstate minutes per year placed over the County's system, the combined impact of the multiline

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4. Note that although the relative magnitude may change, this facility and usage pattern is probably not atypical of other state, county and municipal government entities.

5. *See* Attachment to Statement of Chairman Reed E. Hundt, attached to Report No. 97-23, May 7, 1997, estimating reduction in terminating access from 2.8 cents to 1.2 cents per minute and originating access from 2.8 cents to 2.5 cents per minute.

PICC and switched access price reductions will be an *increase of 68-cents per minute in the switched access charges associated with serving the County.*[6] The County's existing long distance contract is due to expire in August, 1998, causing grave concern relative to our ability to negotiate *any* kind of long distance contract at all.[7]

Clearly the Commission's analysis of the rate impact of the multiline PICC on large users was flawed and must be revisited now so as to prevent the adverse financial and budgetary impact upon local governments that is about to take place. The County is one of the largest government telecommunications consumers in the nation, but is hardly unique in the preponderance of *local* interests that is reflected in the pattern of its telecommunications demands. Local governments deal in local matters; interstate calling is decidedly incidental to their local telecommunications needs. The County should — and does — pay rates for local access lines (including Centrex) that fully recover the economic costs of those services. The County *should not* be forced to pay *uneconomic* non-cost-based charges for which it and other similarly situated government bodies derive absolutely no consequential compensating benefit.

6. In reality the overall picture is even bleaker than that described above, when one adds in the impact of the universal service surcharge that will also be assessed upon the interexchange carriers as a result of the 96-45 decision.

7. From the perspective of the IXCs, customers like the County and other low-interstate-use government bodies will take on the character of "hot potatoes" for whose business IXCs will compete to *avoid*!

Imposition of uneconomic surcharges such as the multiline PICC will distort *local service* procurement decisions in favor of inefficient alternatives.

The PICC problem is particularly acute where the customer, such as the County, makes extensive use of Centrex service. Centrex is a particularly efficient local serving arrangement where numerous geographically dispersed premises are involved, a condition that is quite common for government bodies at all levels — including the federal government. Thus, while the PICC problem is exacerbated for state and local governments because of their very low interstate usage levels, it exists to some extent for all Centrex users including the federal government because of the substantially greater number of access lines upon which the multiline SLC will apply.

As the County understands it, the PICC is to apply to each and every Centrex access line. However, where a PBX (rather than Centrex) is present, the same $2.75 per-month PICC will apply only to each PBX trunk, and not to each PBX station line. Thus, in a 5,000-line Centrex, the monthly PICC will be $13,750. However, if the same functionality is accomplished via a 5,000-line PBX with, for example, only 300 PBX trunks, the monthly PICC charge will be only $925.

The imposition of the multiline PICC at $2.75 per month per Centrex line has the potential to dramatically distort the procurement process for purchasers of both local and long distance services. In the local arena, application of the PICC as presently proposed may improperly incent large users to choose a PBX solution over an otherwise preferable Centrex system. And with respect to long distance service, local governments will be pariahs to be avoided by the IXCs at all costs. The Commission's goal in access charge reform is to eliminate, not exacerbate such economic distortions. The application of the PICC to each Centrex line is an aberration that requires correction.

The Multiline PICC should not be used as a dumping ground for other charges that the Commission is phasing in slowly over time.

During the first three years or so in which it will be in place, the multiline PICC will be acting as a "catch-all" for revenue collection that will be phased in for other classes of customers during that same time period.[8] The Commission's own estimates have the multiline PICC starting at $2.75 in January, 1998 and gradually phasing down in incremental steps over the next three years, such that by January, 2001 the multiline PICC will be a minimal amount. The reason for the reduction over that time period is not that the totality of costs to be recovered will be reduced (although that will to some extent occur because of scheduled price cap annual filings that will take place during that period), but rather because the costs that will initially be collected through the multiline PICC will begin to be collected from the services to which those costs belong. It is the prolonged phase-in of the business single-line SLC increase and the business single-line and residential PICCs, and not any multiline-specific costs, that are responsible for the excessive multiline PICC that has been set by the Commission.

> To the extent that the SLC ceilings on all lines and the PICC ceilings on primary residential and single-line business lines prevent recovery of the full common line revenues permitted by our price cap rules, incumbent price cap LECs may recover the shortfall through a flat-rated, per-line PICC on non-primary residential and multi-line business lines. *footnote 121->* As discussed in Sections III.D and IV.D, price cap LECs may also recover residual TIC revenues and certain marketing expenses through PICCs on non-primary residential and multi-line business lines, subject to the ceilings described

8. 47 C.F.R. § 69.152, 69.153.

below.[9]

As structured, the total interstate NTS revenue requirement is to be collected from six different rate elements: Three SLCs (business multiline, non-primary residential, and primary residential) and three PICCs (business multiline, non-primary residential (including ISDN BRI) and primary residential). The business multiline PICC is the *residual* rate element. That portion of the NTS revenue requirement that is not recovered from other elements will be recovered from the multiline PICC. As the SLC caps are increased and as PICCs are phased in for the other elements, the residual amount of revenue that needs to be collected from the business multiline PICC will be correspondingly reduced.

It is highly inappropriate for the Commission to associate the burden of collecting these revenues with multiline business subscribers, and in particular Centrex subscribers, rather than with the customer classes to whom they belong. Rates for Business multilines and Centrex lines have long been set to fully recover their costs. Although Centrex prices are frequently developed on a customer-specific basis and may appear, on a per unit basis, to be much lower than the corresponding PBX trunk rates, virtually every state that we are aware of has regulations in place that require that those customer-specific prices fully recover the costs caused by the Centrex system. That is certainly the case with the County's Centrex systems provided by Pacific Bell and GTE-California pursuant to the California PUC General Order No. 96-A, Section X. Imposition of the PICC on top of the these already fully compensatory charges represents an inappropriate and non-economic cost burden.

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9. Access Charge Reform, First Report and Order, CC Docket 96-262, para. 99.

Rather than phasing in the non-primary line and primary line PICCs, as the Commission's plan presently does, a more appropriate approach would be to revise the plan and implement the full level of PICCs for single line business and residential customers immediately. This would eliminate both the non-economic cost signals that will be sent as a result of the plan as presently structured, as well as the unnecessary rate churn relative to business multiline users during the coming three year "transition" period.

The County is not opposed to paying increases designed to recover costs that ILECs incur in providing its services, including the proposed SLC increases, but the Multiline PICC is not a cost-based rate.

Despite the substantial price increase the County will incur as a result of the reclassification of certain costs from traffic sensitive (TS) to non-traffic sensitive (NTS) and the corresponding increase in the business multiline SLC,[10] the County is not opposed to this change in the Commission's rules. This change reflects a movement toward a more rational recovery of costs on a cost causative basis, and is recognized as a necessary step in the transition toward a competitive local service market. The impact of this change upon the County will not be negligible. Assuming the that the Commission's estimate of an increase of $1.60 per month in the average multiline SLC on January 1, 1998 is correct, the County may be subject to an annual price increase in its bill of approximately $1.7 million ($1.60 per month x 12 months x 86,000 lines). This $1.7-million in interstate SLC increases will not be offset by reductions in any other interstate rate elements that will be direct-billed and, as discussed below, even the offsets in switched access costs that will flow out of this reclassification of costs will be minimal where the

10. Access Charge Reform, First Report and Order, CC Docket 96-262, para. 77.

County is concerned. While we support the Commission in its effort to move toward rate structures that are more reflective of cost-causation than the present scheme, we do caution that not all of these changes will be painless to all large multiline users.

To the extent the Commission does go forward with the application of Multiline PICCs, they should be applied to Centrex lines on PBX-trunk equivalency basis.

To the extent that the Commission does go forward with the application of Multiline PICCs at the full $2.75 per month level presently contemplated, these charges should be applied to Centrex lines on PBX-trunk equivalency basis rather than on a per-access line basis. Such an application will mitigate much of the impact on governmental users such as the County, and will also eliminate the non-economic distortion between PBX and Centrex pricing that may work to eliminate Centrex as an economically viable service choice for the County and other local government bodies. Although this arrangement could be implemented on a grandfathered system basis,[11] doing so, while helpful to customers with existing Centrex systems, may serve only to add yet another layer of confusion and distortion, sending non-economic signals into the procurement process that would already have been damaged by the implementation of the PICC.

Conclusion

For the foregoing reasons, the County of Los Angeles respectfully asks the Commission to

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11. Grandfathering of "embedded" centrex systems at the residential/single line SLC level was required when multiline SLCs were first introduced in 1984. *MTS and WATS Market Structure*, CC Docket No. 78-72, Third Report and Order, Phase 1, 93 FCC 2d 241 (1983), *recon.*, 97 FCC 2d 682 (1983), *second recon.*, 97 FCC 2d 834 (1984).

reconsider those portions of its Order relating to the imposition of PICC charges, and to eliminate the uneconomic non-cost-based pricing distortions that these charges engender.

Respectfully submitted,

COUNTY OF LOS ANGELES, CALIFORNIA

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